



Regulatory Stewardship Strategy

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CONTENTS

1. Introduction	1
Environmental context	1
Our operating environment	2
Improving services for New Zealanders	3
2. The purpose of this strategy	5
3. How Inland Revenue meets its stewardship obligations	6
Inland Revenue’s strategic direction	6
The Generic Tax Policy Process and tax policy work programme	6
Regulatory impact analysis	7
Policy impact assessment	7
Connecting policy design and implementation	8
Continuous improvement	8
Business Transformation programme	9
Accessible legislation	9
Compliance	10
Adjudication and Rulings	10
Future steps	11
4. Inland Revenue’s regulatory systems	12
Revenue raising and collection	14
Working for Families tax credits	21
Child support	23
KiwiSaver	25
Student loans	27
Paid parental leave	29
Information sharing	30
5. The Generic Tax Policy Process and the tax policy work programme	33
The Generic Tax Policy Process (GTPP)	33
How the tax policy work programme is developed	34
The structure of the tax policy work programme	35
6. The tax policy work programme – current projects	39
Enhancing tax policy within broad-base, low-rate (BBLR) tax settings	39
International tax and base erosion and profit shifting (BEPS)	40
Business Transformation and Better Public Services	41
Social policy	42
Routine updates to regulations	43
7. Acts administered by Inland Revenue	46

1. Introduction

Inland Revenue plays a critical role in improving the economic and social wellbeing of New Zealanders by collecting and distributing money. We collect over 80 percent of the Crown's revenue. We also administer social policies such as child support, Working for Families, KiwiSaver and student loan repayments.

Our success is reflected in three outcomes:

- Revenue is available to fund government programmes through people meeting payment obligations of their own accord.
- People receive payments they are entitled to, enabling them to participate in society.
- New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment.

We want to make it easy for our customers to interact with us and to pay and receive the right amount. We also want to continue to meet the changing expectations of government and society.

With the advent of the various social policy functions, Inland Revenue is now the government agency that more New Zealanders deal with every day than any other agency. As such, Inland Revenue has responsibility for, or a major role in, seven regulatory systems:

- Revenue raising and collection (with two sub-systems: income tax and consumption tax);
- Working for Families tax credits;
- Child support;
- KiwiSaver;
- Student loans;
- Paid parental leave; and
- Information sharing.

Regulatory systems are the set of rules, norms and sanctions, given effect through the actions and practices of designated actors, to shape behaviour or interactions in pursuit of a broad goal or outcome. This document explains Inland Revenue's stewardship of those regulatory systems.

Environmental context

For Inland Revenue, good stewardship of the regulatory systems means developing policy and designing administrative processes that will protect the tax system, by taking into account the various factors that contribute to a good tax and social policy system.

In New Zealand, a good tax and social policy system is an essential part of our economy and society.

The tax system is a major national asset. Taxes raise money to finance government spending. This is essential if New Zealand is to provide the healthcare, education and other government services that its citizens expect. A robust tax base and high levels of voluntary compliance are critical. At the same time Inland Revenue needs to have effective enforcement so that the minority of taxpayers who do not willingly comply are compelled to do so.

Almost one third of New Zealand's GDP is collected in tax. This is a major intervention in the economy, so it is important that the tax system works well.

Taxes create costs. In addition to the revenue raised (which is a transfer from taxpayers to the Government) there will be a set of additional or "deadweight" costs. These include costs to taxpayers in complying with the tax system, costs to Inland Revenue in administering the tax system and distortionary costs to the economy because of the way that taxes can cause firms and individuals to do things that would not be sensible in the absence of tax. For example, taxes can discourage people from working as long or as hard as they would in the absence of tax or from investing in businesses. Taxes can cause firms to invest in inefficient ways of working.

Over time, Inland Revenue has increasingly been used as an agency for delivering social policy programmes. Social policy measures administered by Inland Revenue also create compliance costs, administration costs and distortionary costs. Good policy will keep all of these costs to a minimum.

Our operating environment

We are continually evaluating our environment to identify existing and emerging trends, risks and opportunities. This allows us to be ready to respond, ensuring sustainable and successful delivery of our services.

Historically, the New Zealand public sector operating environment has been relatively uniform and stable, with clear boundaries. However, the last few decades have seen global drivers of change affecting New Zealand in unprecedented ways. We recognise that our world is now characterised by diversity, volatility and permeability, and that new times require new responses. We must continue to maintain the integrity of the tax system as New Zealand's population becomes more diverse, digitally connected, and mobile.

Like all countries, New Zealand needs to respond to domestic and international threats to our revenue from tax avoidance and evasion, as well as wider change drivers such as technology-driven change and volatility in the global economy. New Zealand's population is changing, with increasing numbers of migrants who have different service needs. Our ageing population will also have economic costs and will put pressure on our revenue base.

We will continue working to:

- build our capability to identify and assess emerging trends;
- challenge our assumptions about the future and apply insights about possible future scenarios to make better decisions today;
- build agility within Inland Revenue, including speed and ability to shift resources;
- make better connections between our futures thinking, decision-making, planning, policy design and implementation, and risk-assessment processes; and
- rethink how we collaborate with other government agencies, the private sector, customers and stakeholders.

At the same time, the Government’s Business Transformation programme aims to modernise our tax administration and make it easier for people to get their taxes right and difficult to get wrong.

The programme will enable and support a refocus of our compliance approach from reactive enforcement to proactively facilitating compliance. There is an opportunity to design a customer-centric environment which enables compliant behaviour “right from the start”, rather than correcting non-compliant behaviour afterwards. An example of “right from the start” is the proposed change to Working for Families which will mean that income and entitlement will be determined more frequently, and therefore will reduce the need for reconciliation and adjustment. This provides greater household income certainty as well as reducing the administrative and compliance costs of the system. The environment (and supporting systems) will be shaped around better understanding of customer behaviour and lifecycles. We will seek to shape this behaviour by influencing customers’ capability, motivation and opportunities to comply.

Improving services for New Zealanders

We recognise that a connected, collaborative public sector can better serve New Zealanders’ needs in a number of ways. We also recognise that the information we have is a strategic asset that can be shared to benefit government and society. We want to improve our collective ability to serve our customers well. We do this through contributing to the Better Public Services programme (particularly, Result 9 and 10), the Digital Government framework, and by sharing information and working with other government agencies.

The Business Transformation programme is a key initiative that will deliver on many of the outcomes sought through Better Public Services, as it will significantly reduce effort for New Zealanders and businesses, making it much easier to deal with government. It also contributes to the Government’s objective for more integrated public services.

We are working closely with other government agencies to deliver the innovative and effective public services that government and our customers expect. We are linking more of our customer services with those of other government agencies to provide a seamless service.

Through information sharing we assist other government departments to access data which helps New Zealanders and the public service through more accurately targeted services and support. We protect customer privacy and the integrity of the tax system when considering the benefits of greater information sharing across government.

2. The purpose of this strategy

In 2015, the Government asked seven of the main regulatory agencies¹ to publish annual assessments of the current state of their regulatory systems, plans for amendments to regulation and new regulation, and their views of important emerging issues for regulation.

This regulatory management strategy explains how Inland Revenue will meet its regulatory stewardship responsibilities under the State Sector Act 1988. This is Inland Revenue's second regulatory stewardship strategy.

Inland Revenue's responsibilities cover seven regulatory systems. Our largest regulatory system – revenue raising and collection – can be further broken down into sub-systems based on income tax and consumption tax.

Inland Revenue carries out numerous common regulatory functions:

- policy;
- legislation;
- service design;
- service delivery;
- information provision;
- compliance and enforcement;
- monitoring and evaluation;
- performance reporting; and
- adjudication and rulings

In some of our regulatory systems, some functions are carried out by other agencies.

Definitions

- A **regulatory system** is a set of rules, norms and sanctions, given effect through the actions and practices of designated actors, to shape behaviour or interactions in pursuit of a broad goal or outcome.
- A **regulated party** is a person or organisation that is subject to behavioural expectations, obligations and/or sanctions within a regulatory system.
- A **regulatory agency** is any agency (other than courts, tribunals and other independent appeal bodies) that has any of the following responsibilities for the whole or part of a regulatory system: monitoring; evaluation; performance reporting; policy advice; policy and operational design; legislative design; implementation; administration; information provision; standard-setting; licensing and approvals; or compliance and enforcement.

¹ Inland Revenue, Ministry of Business, Innovation and Employment, Ministry for the Environment, Ministry of Primary Industries, Ministry of Transport, Ministry of Justice and the Department of Internal Affairs.

3. How Inland Revenue meets its stewardship obligations

Inland Revenue has a number of mechanisms, tools and initiatives in place to meet its regulatory stewardship responsibilities. These allow us to take a proactive and collaborative approach to the on-going monitoring and care of those regulatory systems.

Inland Revenue's strategic direction

Inland Revenue's corporate strategy is made up of six strands, which guide us in planning, making essential shifts and managing risks. These strands cover our customers, our people, our place in a digital world, external collaboration, policy agility, and information and intelligence. The external collaboration strand guides us in working with others inside and outside of government.

Customer centricity

Being customer-centric means that we will help customers get it right from the start, this will improve the customer experience and reduce compliance cost and effort – so customers spend less time dealing with their tax and social policy obligations.

Policy agility

Policy agility is end-to-end policy that needs access to good information and insights to be more effective, responsive and evidence based. Improving our policy agility will mean that we are able to maintain our world class tax system in an increasingly complex and changing world.

The Generic Tax Policy Process and tax policy work programme

Tax policy is developed using the Generic Tax Policy Process. This process is designed to ensure better, more effective tax policy development and implementation through early consideration of all aspects – and likely impacts on customers – of policy proposals. One of the main features of the process is built-in consultation with affected parties and other interested parties.

Consultation takes a variety of forms ranging from the release of a consultation document, to workshops to dialogue with the private sector through to co-design. Most importantly, one size does not fit all and the approach ultimately depends on the nature and extent of the policy change and who is affected.

The tax policy work programme, which is owned and agreed to by the Minister of Revenue and the Minister of Finance and is developed with the Treasury, is Inland Revenue's plan for the development, management and delivery of legislative change. The highest priority improvements are reflected in the tax policy work programme, and include remedial changes and the routine regulatory updates we manage. We maintain a regulations register.

The Government tax policy work programme covers three broad areas:

- Inland Revenue's Business Transformation programme, including Better Public Services;
- international tax and base erosion and profit shifting; and
- further improvements and enhancements to tax and social policy within the broad-base, low-rate (BBLR) policy framework.

See Section Five for more information on the Generic Tax Policy Process and the tax policy work programme. News and information about the tax policy work programme is available at www.taxpolicy.ird.govt.nz.

Regulatory impact analysis

We have a panel of experienced analysts available to help policy staff meet the Government's regulatory impact analysis requirements, and to conduct independent quality assurance reviews of regulatory impact assessments (where they are not reviewed by Treasury's Regulatory Quality Team).

The panel assists policy staff with preparing regulatory impact assessments and national interest analysis' (for tax treaties).

Where quality assurance reviews are carried out by Inland Revenue, two panel members not involved in the project will confirm whether the regulatory impact assessment meets the quality assurance criteria.

We also use external policy consultants to review the quality of our policy advice, to help us improve our processes and advice.

Policy impact assessment

We have a formalised policy impact assessment process to ensure that policy advice is supported by realistic and well thought through advice on the implementation costs and benefits of a proposed change.

A specialised service design team determines whether or not a proposed change should be analysed for system impacts. When an analysis is undertaken it includes all parts of Inland Revenue that may be affected by the change. The policy impact analysis is signed off by the senior managers from each area that are involved in the analysis. This ensures that policy analysis appropriately reflects the implementation costs and risks when decisions are made. This also ensures that implementation colleagues fully understand pending change.

Connecting policy design and implementation

Since 2006, Inland Revenue has had a dedicated service design team (Government Solutions) working alongside the policy design team, fostering a customer focus from the start and strengthening policy design and implementation links. Having policy and service design officials working throughout the Generic Tax Policy Process creates a better outcome.

Engagement on the proposals to make provisional tax simpler and easy for business customers (in this case, small and medium enterprises), is a good example of co-design. It was clear from the outset that the simplest solution would be to incorporate provisional tax into the natural business cadence of business customers. To this end, software developers of the accounting packages used by business customers were invited to work alongside policy and design officials.

This arrangement enabled software developers to be involved in every step of the policy and design process, which involved testing of both policy and implementation options, and technical input into the draft legislation. In addition, working parties and an oversight group comprising private sector representatives were established to provide governance and guidance to the co-design team. The resulting outcome is an industry-led solution that will meet the needs of business customers.

Continuous improvement

An emphasis on continuous improvement is crucial for becoming an organisation using intelligence for providing services better targeted to our customers. There are three key areas of focus which are interlinked, each crucial to the effectiveness and sustainability of a continuous improvement culture. The areas of focus are:

- leadership thinking and behaviours that create and foster the culture, as reflected in Inland Revenue's leadership dimensions;
- management systems to highlight, understand and deliver business performance; and
- the tools and technical capability to solve problems which deliver increased measurable value to our customers.

Over the past three years we have had a dedicated continuous improvement team with the main objectives of growing continuous capability and leading improvement initiatives that have delivered increased value to the customer.

We have seen over 130 frontline customer teams trained to solve problems in a structured way that add value to the customer. The outcome has been a self-sufficient business group that continue to identify and implement improvement initiatives, which results in on-going value being created for our customers.

Business Transformation programme

Our multi-year, multi-stage Business Transformation programme is currently under way and reflects Inland Revenue's acknowledgement that its processes and systems, and in some cases the legislation, limit its capability to meet the future requirements the Government may have of the tax system and the social policies Inland Revenue administers. We're making it simpler, more open and certain for New Zealanders to pay their taxes and receive their entitlements. It is a once-in-a-generation opportunity to modernise New Zealand's revenue system. The capability that is being developed through Business Transformation addresses the expectations of good regulatory practise, and will improve the agility of Inland Revenue to develop and implement the regulatory changes required by government.

See Section Five for more information.

Modernising the Tax Administration Act – case study

We are working to simplify and modernise the Tax Administration Act 1994 (TAA). The TAA centres on the rights and obligations of taxpayers, including the records that need to be kept, providing information, interpreting the law and reconciling any different interpretation by Inland Revenue, assessing and amending liabilities, paying and filing on time, and penalties arising from default. The current tax administration system in New Zealand relies heavily on primary legislation, as predominately reflected in the TAA. This means the rules are slow to adapt, and inflexible for different types of taxpayers.

Our proposals released in December 2016 for consultation, include potential changes to the role of the Commissioner and design of a new TAA. They are:

- Extending the care and management provision to allow the Commissioner some greater administrative flexibility in limited circumstances.
- Allowing a greater use of regulations for tax administration, including:
 - allowing for a more tailored approach to different types of taxpayers; and
 - allowing trials of tax administration processes to be carried out.
- Amending the structure of the TAA to reflect the modernised tax administration, including basing the Act around core provisions.
- Moving to a more hierarchical approach to drafting the TAA, including a greater use of principles when appropriate.

Accessible legislation

We are currently actively working with the Parliamentary Counsel Office (PCO) on the Access to Subordinate Instruments Project. Inland Revenue and the PCO have, so far, analysed the main Revenue Acts and identified potential subordinate instruments that may be legislative in nature and that may appropriately fall within the project. Once these provisions have been further reviewed and finalised, we will be looking at the need (and potential timing) for affected legislation to be confirmed and published on the New Zealand Legislation website.

We are active in the Government Regulatory Practice Initiative, which is a network of government regulatory agencies that lead and contribute to regulatory practice initiatives. With this network we improve leadership, culture, regulatory practice and workforce capability in regulatory organisations and systems.

Compliance

Compliance for Inland Revenue is when customers pay the taxes and get the entitlements they should.

Our compliance model helps us understand our customers better. The more we understand customer needs and behaviours, the better we can tailor our actions to facilitate compliance. The compliance model shows us what makes up customer behaviour and provides a set of principles to help tailor the activities we use.

Customer behaviour is more than attitude. A combination of capability, opportunity and motivation make up compliance behaviour – we can be more proactive and use different approaches to help customers comply.

Right from the start

As Inland Revenue transforms, we are changing how we work with customers. We are shifting our compliance approach to be more proactive and make it simpler and more certain for customers. We want to help customers get it right from the start, rather than correcting them when they get it wrong.

Strategic direction for compliance

Our approach to customers is increasingly flexible and adaptive. We understand more about outside factors that influence compliance, such as social marketing and system design. We want to give our customers certainty with the least number of interactions and we want our customer connections to be correct the first time. And we will be able to appeal to different customer groups in ways they can relate to.

Adjudication and Rulings

Public rulings

The Office of the Chief Tax Counsel produces public statements on particular tax or social policy issues of interpretative uncertainty. These statements assist compliance by providing certainty and predictability to external tax advisers (our primary audience), taxpayers and internal staff. Our aim is to ensure that Inland Revenue provides legally accurate and consistent guidance. We consult on our items both internally and externally before finalising them.

Taxpayer rulings

The Office of the Chief Tax Counsel is responsible for the taxpayer rulings process. Taxpayer rulings are binding rulings that apply to a specific taxpayer or transaction, in particular private rulings and product rulings. Taxpayer rulings also include certain

advance pricing agreements (APAs), status rulings and financial arrangements determinations.

Disputes review

The Office of the Chief Tax Counsel acts as the final step in Inland Revenue's formal disputes resolution process before possible litigation. The key function is to take a fresh look at a dispute, providing an independent and impartial decision on the issues in the dispute. This role involves impartially considering the correct legal position after comprehensive research and analysis of the law.

Information from our compliance and adjudication and rulings work is used to identify problems and loopholes in current systems.

Inland Revenue publishes *Tax Information Bulletins* which include information about changes to tax-related legislation, proposed legislation, judgements, rulings and other specialist tax topics. Inland Revenue provides these bulletins as a service to people with an interest in New Zealand taxation.

Future steps

We will publish a revised regulatory stewardship strategy once Ministers confirm the next tax policy work programme after the 2017 general election. The programme is published online as soon as it is agreed. Our stakeholders are involved in the consultation process when we renew or update the published programme every 18 months.

4. Inland Revenue's regulatory systems

This section sets out Inland Revenue's regulatory systems and the "fit-for-purpose" assessments for each of these. These assessments were completed by Inland Revenue. Other agencies have been given an opportunity to comment where relevant and appropriate. We anticipate including further multi-agency input and stakeholder views to our updated fitness-for-purpose assessments in the next strategy.

There are seven systems:

- Revenue raising and collection, with two sub-systems – income tax and consumption tax;
- Working for Families tax credits;
- Child support;
- KiwiSaver;
- Student loans;
- Paid parental leave; and
- Information sharing.

In some of our regulatory systems, some regulatory functions are carried out by other agencies.

The fit-for-purpose assessments cover four dimensions:

- **Effectiveness** – To what extent does the system deliver the intended outcomes and impacts?
- **Efficiency** – To what extent does the system minimise unintended consequences and undue costs and burdens?
- **Durability and resilience** – How well does the system cope with variation, change and pressures?
- **Fairness and accountability** – How well does the system respect rights and deliver good process?

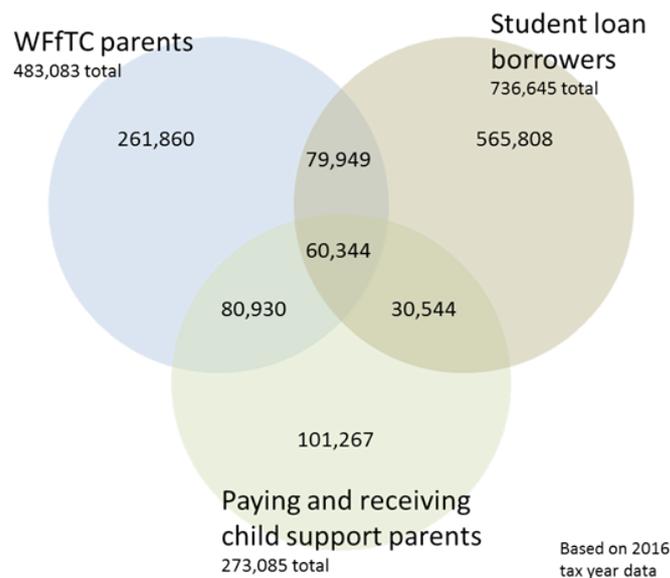
The fit-for-purpose assessments of the regulatory systems were completed by Inland Revenue subject matter experts. Where possible, these assessments have drawn on research, international comparisons and information held by Inland Revenue. As appropriate these assessments were tested with other participants in those regulatory systems. Over time, as the Business Transformation progresses and information and analysis processes (including information sharing) are developed, Inland Revenue will refine its regulatory system assessments.

See Section Six for the current projects on the tax policy work programme and the regulatory systems they relate to.

Diagram 1: Inland Revenue regulatory systems – system and function view

	Policy	Legislation	Service design	Service delivery	Information provision	Compliance and enforcement	Monitoring and evaluation	Performance reporting	Adjudication and rulings
Revenue raising and collection	Treasury			Customs			Treasury		
Working for Families tax credits	MSD			MSD			MSD	Treasury	
Child support				MSD					
KiwiSaver	MBIE					MBIE		Treasury	
Student loans	Min Edu			MSD		Customs		Min Edu	
Paid parental leave	MBIE				MBIE		MBIE		Inland Revenue

Diagram 2: Customers of Working for Families tax credits, student loans, and child support



Revenue raising and collection

System description Inland Revenue designs and collects taxes on income from employment, investment and business conducted in New Zealand and from the consumption of goods and services in New Zealand. This revenue of around \$60 billion per annum funds approximately 80 percent of government activity each year.

The income tax system also has a distribution and fairness element and in this there is a degree of overlap with the Working for Families system.

All New Zealanders directly or indirectly interact with the tax system throughout their lives. For most, this is a minimal interaction through the deduction of Pay As You Earn (PAYE) withholding tax from salary or wages, resident withholding tax (RWT) from interest, or as GST is collected by a vendor at the point of sale of a good or service.

More complex interactions with the tax system are experienced by businesses that may be subject to fringe benefit tax or company tax.

Taxpayers who have more complex interactions with the tax system are represented by sophisticated stakeholder advocates, including:

- Chartered Accountants Australia and New Zealand;
- New Zealand Law Society;
- Corporate Taxpayers Group;
- New Zealand Bankers Association; and
- Financial Services Council.

The tax system comprises a series of specific taxes, each of which is authorised by legislation. Though these can be analysed separately (and the two core elements are described below as sub-systems), it is important to recognise that a goal is for the tax system as a whole to operate coherently.

The fit-for-purpose assessment for the revenue raising and collection system covers:

- the overall tax system;
- the income tax sub-system; and
- the consumption tax sub-system.

The overall tax system

Key legislation	<p>Income Tax Act 2007 Tax Administration Act 1994 Goods and Services Tax Act 1985 Gaming Duties Act 1971 Stamp and Cheque Duties Act 1971</p>
System agencies	<p>Inland Revenue (Policy and Delivery) Treasury (Policy) New Zealand Customs Service (Deliver – some GST collection) Department of Internal Affairs</p>
Effectiveness	<p>New Zealand’s tax system provides reliable sources of revenue to fund Government programmes. New Zealand’s tax revenue amounts to around 30 percent of GDP.</p> <p>A key element in a good tax system is having a coherent framework. This ensures all the different parts of the system operate in support of each other. New Zealand’s broad-base low-rate (BBLR) tax framework provides a coherent approach.</p> <p>The coherent policy framework is supported by good administration. New Zealand is ranked within the top 10 OECD countries for ease of paying taxes.</p>
Efficiency	<p>New Zealand collects about 90 percent of its tax revenue from the three core taxes (personal, company and GST). New Zealand does not have taxes on transactions or turnover, such as stamp duty and cheque duty, which international tax reviews have identified as being particularly inefficient.</p> <p>As noted, New Zealand’s tax system is based on a broad-base, low-rate framework. The advantage of broad bases is they ensure taxes are able to raise the required amount of revenue without resorting to high rates of taxation. This minimises the extent by which taxes distort economic activity and do as little as possible to impede economic growth. Low rates minimise deadweight losses and also minimise incentives for non-compliance.</p> <p>Despite not having the economies of scale of most other developed economies, the New Zealand tax system operates efficiently in terms of administrative costs per dollar of revenue collected. International comparisons also suggest New Zealand imposes low compliance costs on taxpayers. The 2016 survey of tax compliance for SMEs indicated the costs of compliance had fallen by approximately 25 percent since the previous survey in 2013.</p> <p>Tax policy is developed in accordance with the Generic Tax Policy Process (GTPP). The GTPP is an open and interactive process whereby private sector representatives, particularly tax practitioners, are able to provide input into policies and policy design to remedy problems and improve implementation.</p>
Durability and resilience	<p>The BBLR framework is very durable. It was introduced in the mid-1980s replacing a highly distortionary system with patchy application and some very high rates. Since then there has been buy-in from the public and successive tax reviews have supported the BBLR</p>

framework.

Leading tax practitioners with experience in New Zealand and overseas have commented on the very different nature of tax debates in New Zealand and other countries because of a lack of clear policy frameworks in other countries. A clear framework promotes compliance because it helps courts to decide what is and what is not avoidance.

International surveys have indicated New Zealand's tax system is perceived as more consistent and predictable than most other countries.

Though the overall framework has been stable, tax policy has evolved to reflect Government priorities, new interpretations of the law, innovations in business practice, tax policy developments in other countries and concerns of key stakeholders. Inland Revenue publishes and periodically updates its tax policy work programme which sets out the issues which will be worked on over the coming 1–2 years.

The tax policy work programme (see Section Six) reflects the fact that to be resilient the tax system needs ongoing maintenance and enhancement.

Fairness and accountability

The GTPP provides the private sector with opportunity to influence tax policy. This has contributed to open and constructive policy debates, which is a hallmark of the New Zealand tax system.

The disputes resolution process is designed to ensure that there is a full and frank communication between the parties in a structured way within strict time limits for the legislated phases of the process.

The disputes resolution process is designed to encourage an “all cards on the table” approach and the resolution of issues without the need for litigation. It aims to ensure that all the relevant evidence, facts and legal arguments are canvassed before a case proceeds to a court.

The income tax sub-system

System description The income tax system has two objectives: to raise revenue and to redistribute income through the use of a progressive tax scale.

Individual income tax is the largest component of New Zealand's tax system. It collects approximately 40 percent of New Zealand's tax revenues.

Most of the personal income tax is collected through employers deducting employees' tax through the PAYE system. For many workers, the amount of tax deducted is accurate and they have no need to file a tax return at year end. Self-employed workers pay their tax either by having tax deducted through schedular arrangements or by paying provisional tax throughout their income year.

Company income tax raises around 15 percent of total tax revenue. The company income tax system is designed to be a backstop for taxing the personal income of domestic investors. Company income tax is 28%, but New Zealand-based investors can claim imputation credits for tax paid by the company when the income is taxed upon distribution at the personal level.

At the same time, the company tax is designed as a final tax on the New Zealand-sourced income of foreign investors.

Individual income tax

Effectiveness The recently published OECD Report *Taxing Wages 2015–16* pointed to New Zealand's personal tax system being effective at raising revenue while maintaining relatively low tax rates and therefore minimising distortions.

The personal tax collection as a percentage of GDP in New Zealand is 12.6 percent – the 5th highest in the OECD. At the same time, New Zealand has low tax wedges – that is, low average tax rates.

The tax wedge varies according to family composition and interaction with the progressive tax scale. Across a range of family types and income levels examined by the OECD, New Zealand has low tax wedges compared with OECD countries.

For instance, for single workers on the average wage with no dependents, the tax wedge in New Zealand is 17.9 percent. This is the second lowest in the OECD. The OECD average is 36 percent.

For a family with one earner on the average wage and two dependent children, the tax wedge in New Zealand falls to 6.2 percent because of Working for Families tax credits. This is the lowest rate in the OECD. The OECD average is 26.6 percent.

This outcome – low wedges but high levels of revenue – reflects the absence of allowances or dispensations and relatively good compliance by taxpayers.

Individual income tax, in combination with the transfer system, redistributes income. By one measure of redistribution or progressivity, namely the extent by which the average tax wedge grows as income grows, New Zealand is slightly more progressive than the OECD average.

An alternative approach is the extent to which the tax and transfer

system reduces inequality. OECD data indicates that New Zealand reduces a standard measure of inequality, the Gini coefficient, by slightly less than the OECD average.

Efficiency

The extent by which taxes produce deadweight losses is influenced by average and marginal tax rates. In terms of average tax rates, as described above, the New Zealand system performs well. This is also the case for marginal tax rates; New Zealand's highest marginal tax rate of 33% is relatively low by international standards.

However, because of the interaction with the transfer system, some low-middle income taxpayers face higher effective marginal tax rates because of the combined impact of benefit abatement and personal taxation.

The PAYE system provides an efficient means of collecting tax because compliance sits with the (relatively) few employers rather than the more numerous employees. The provisional tax system for self-employed is more onerous; Inland Revenue's Business Transformation is creating opportunities for these processes to become easier for taxpayers by taking into account business cash flow and leveraging off accounting systems.

New Zealand's broad income tax base allows a lower rate, which increases efficiency. Expanding the base further, to include (for example) capital gains could allow a further reduction in income tax rates over time, but efficiency gains from lower rates have to be balanced against efficiency costs of realisation-based capital gains taxes themselves (for example, the lock-in of assets due to a desire to defer realisation through sale) and the high administrative cost of a capital gains system.

Durability and resilience

New Zealand's personal tax system and collection through the PAYE system is long-standing. The system is amenable to periodic adjustments, such as the changes to tax thresholds introduced in the 2017 Budget.

Fairness and accountability

Generally, taxpayers with similar levels of income will pay similar amounts of tax, irrespective of the source of that income. One partial exception is that income earned as a capital gain is generally not taxed. Successive reviews of the New Zealand tax system have noted this gap but also noted the significant complications of a capital gains tax and consequently not recommended one be adopted.

For most individuals, tax is deducted through the PAYE system. For those with stable incomes throughout the year, this produces an accurate deduction of tax and many such taxpayers do not need to file an annual return. For taxpayers with variable income, or those who are self-employed and pay tax through the provisional tax system, tax deductions are not as certain or reliable. However, all such taxpayers are required to square up their tax after the year-end, so taxpayers with identical total income will face identical tax obligations however the income is earned. This approach does create compliance for employers however this is the most efficient approach overall for the economy as the total cost of compliance would be significantly higher and accuracy would be significantly lower if all individuals completed their own income tax calculations.

Company tax

Effectiveness

To support the domestic personal tax system, the company rate should ideally be aligned to the top personal tax rate. In New Zealand this is almost but not fully achieved; the company rate being five percentage points below the top marginal tax rate.

New Zealand, however, also has to consider how its company tax rate compares with that of other countries. This is because multinational companies will have incentives to allocate their expenses to countries with higher tax rates and their profits to countries with lower tax rates. Around the world, there is a downwards trend in company rates and New Zealand now sits above the OECD average, thereby creating pressure for New Zealand's rate to reduce. However, in addition to the revenue implications, a lower company tax rate would widen the gap with the top marginal rate for personal income.

Efficiency

New Zealand's dividend imputation system prevents company income from being double taxed (for New Zealand investors). In addition the (reasonably) close alignment of the company tax rate with the highest personal rate means that there is little incentive for incorporation decisions to be driven by tax considerations. In other words, the tax system is not driving economic choices, an outcome which is likely to be efficiency-enhancing.

As a final tax on New Zealand-sourced income of foreign investors, the efficiency of the tax is related to the level of location-specific "economic rents" (that is, above-normal returns) earned by those investors. If foreign investors are earning above-normal returns, taxing them is an efficient source of revenue because the tax does not discourage investment. If they are not earning above-normal returns then the tax will lower investment in New Zealand, which will ultimately be borne by New Zealanders in the form of lower wages or higher consumer prices. Inland Revenue's view is that there are location-specific rents being earned by foreign investors and so taxing them is a relatively efficient way of raising revenue.

Durability and resilience

New Zealand is a participant in the OECD's base erosion and profit shifting (BEPS) initiatives. These initiatives aim to ensure multinationals pay tax in the countries where their economic (as opposed to accounting) profits are earned.

Fairness and accountability

Taxing income at the company level increases fairness because it means that individuals are less able to defer taxation by holding assets or earning income in a company. For policy reasons there are a number of income tax exemptions (for example, registered charities).

See also the comments in the assessment for the revenue raising and collection system.

The consumption tax sub-system

System description	<p>The Goods and Services Tax (GST) is a tax on goods and services consumed in New Zealand, which is borne by the final consumer. It is levied at the rate of 15%. It is primarily administered by Inland Revenue. However, the New Zealand Customs Service administers GST levied on goods imported into New Zealand.</p>
Effectiveness	<p>GST raises about 30 percent of New Zealand's tax revenue. The tax is a very effective revenue raising instrument. The rate of 15% is amongst the lowest in the OECD yet the amount of revenue raised, as a proportion of GDP, is amongst the highest for that same group of countries.</p> <p>This is a good example of how the BBLR framework applies in practice. New Zealand applies GST comprehensively, with very few exemptions or concessions. The main gap in this regulatory system is the importation of low value goods, which are currently exempt from GST. This is currently being considered in conjunction with Customs.</p> <p>The GST has an economic effect of taxing all labour income at 15%, making it a flat rather than progressive tax. This is an example where fairness needs to be considered in the context of the entire tax system rather than individual taxes, as the progressive elements of New Zealand's tax system are introduced through the personal tax and transfer system.</p>
Efficiency	<p>The GST compliance gap is an estimate of the shortfall in GST collection compared with what one could expect based on the Department of Statistics measurement of consumption expenditure. New Zealand's compliance gap appears to be in the 2–4 percent range, which is lower than that estimated in other comparable countries.</p>
Durability and resilience	<p>GST is durable as it has been in place for 30 years. In that time, the rate has been increased twice.</p> <p>It is a well-regarded scheme because its comprehensiveness and simplicity assist compliance and administration.</p>
Fairness and accountability	<p>See comment in the revenue raising and collection assessment.</p>

Working for Families tax credits

System description	<p>Working for Families is a package designed to help make it easier to work and raise a family. It pays extra money to many thousands of New Zealand families. Greater financial support is available for:</p> <ul style="list-style-type: none">• almost all families with children, earning under \$70,000 a year;• many families with children, earning up to \$100,000 a year; and• some larger families earning more. <p>There are four types of tax credits:</p> <ul style="list-style-type: none">• family tax credit;• in-work tax credit;• minimum family tax credit; and• parental tax credit. <p>Inland Revenue administers the programme jointly with the Ministry of Social Development. In the 2015–16 financial year, we distributed \$2.4 billion in entitlements to support families.</p>
Key legislation	Income Tax Act 2007
System agencies	Inland Revenue (Policy and Delivery) Treasury (Policy) Ministry of Social Development (Policy and Delivery)
Effectiveness	<p>The Working for Families tax credit system (WfF) is generally effective in providing low to middle income families with regular payments. Payments are easy to apply for and the majority of services are available online either through Inland Revenue or MSD.</p> <p>Around 70 percent of New Zealand families with dependent children receive Working for Families tax credits either through Inland Revenue or MSD.</p> <p>In order to receive regular payments families must estimate their anticipated earnings for the coming tax year – this can be difficult and an incorrect estimate can lead to either over or under payment of entitlements. Families can avoid this risk by opting to receive their payments at the end of the year, however this undermines the intent of WfF which is to provide support when it is needed.</p> <p>Changes proposed as part of the social policy Business Transformation project aim to remove this uncertainty by replacing the income estimate and instead calculating WfF entitlements based on recent, actual income.</p> <p>The amount of child support a person pays or receives will increase or lower (respectively) their income for Working for Families which may then lower or increase (respectively) their WfF entitlements.</p>
Efficiency	The shared delivery model with MSD has advantages in that it allows beneficiaries to deal only with MSD with regards to their entitlements, but also disadvantages in that it necessitates

information shares between the departments as well as complexity for families coming off or going on benefit.

The current WfF system generates a high level of low value contacts from families trying to estimate their income and dealing with the consequences of incorrect estimates.

In 2015–16, 99.3 percent of WfF tax credit payments were made on the first regular payment date following an application.

Durability and resilience

WfF rates and eligibility rules are contained within the Income Tax Act 2007. The ability the system has to respond to changes in the environment is limited by the legislative process. To date this has not proved to be an impediment as generally information technology system changes require a longer lead in than the normal bill processes allows.

Both Inland Revenue's and MSD's transformation programmes aim to provide a more responsive operating systems that can be quickly updated which will allow Government to react faster to environmental changes.

Fairness and accountability

Having the WfF rules in legislation provides a high level of transparency as all of the criteria and entitlement rates are publicly available. However, one consequence of having the rules in legislation is that they do not always cater to unusual or exceptional circumstances, which can mean in rare cases the law, as written, does not achieve the desired policy outcome.

Changes proposed as part of the social policy Business Transformation project aim to introduce some flexibility by allowing the Commissioner limited discretion in how to apply the law when dealing with unusual or exceptional circumstances.

The Generic Tax Policy Process ensures that any changes to the rules are subject, where possible, to robust public consultation prior to the introduction of any legislative amendment.

Child support

System description	<p>The child support scheme makes sure that:</p> <ul style="list-style-type: none">• parents take financial responsibility for their children; and• financial contributions from liable parents help to offset the cost of benefits that support their children. <p>Inland Revenue collects child support payments. In the 2015–16 financial year, we collected \$474 million from 170,000 liable parents who pay child support and distributed \$280 million to carers. The balance goes to the Crown to offset sole parent benefits paid to custodial parents by the Ministry of Social Development.</p>
Key legislation	Child Support Act 1991
System agencies	Inland Revenue (Policy and Delivery) Ministry of Social Development (Policy and Delivery)
Effectiveness	<p>Child Support is a compulsory regime for beneficiaries and an optional regime for parents who are unable or do not want to come to a private arrangement.</p> <p>Child Support is assessed using annual income information from the previous calendar year or two tax years ago. This means that parents and carers know what payments they will have to make or what they might receive.</p> <p>However, there are some issues. Payments based on old income information may not reflect the current ability of each parent to contribute to the cost of raising a child.</p> <p>Changes proposed as part of the social policy Business Transformation project aim to make child support assessments better reflect the ability of the liable parent to pay and the receiving carer's need for support at the time by basing assessments on more recent income information.</p> <p>The child support formula considers each parent's income and the amount of care they have for each of their children. While the regime works well for most situations, the definition of income is based off concepts from tax legislation. This can mean that some people are able to artificially reduce their income for child support by taking advantage of structures like trusts and companies or transactions such as loans and fringe benefits.</p> <p>Changes proposed as part of the social policy Business Transformation project would broaden the definition of income used so that it encompasses a wider range of incomes that, while they may not be taxable, are available to the parent and should be taken into account in assessing their ability to contribute to the costs of the child.</p> <p>The amount of child support a person pays or receives will increase or lower (respectively) their income for Working for Families which may then lower or increase (respectively) their WfF entitlements.</p>
Efficiency	The current system uses the PAYE deduction regime for income tax to deduct child support obligations from liable parents who either elect to have them or who have fallen into arrears. Once a

payment is made by the liable parent, it can take a while to get to the receiving parent or carer.

It is proposed that liable parents who receive salary, wages or contracting income subject to withholding tax would be required to have child support deductions. This would help those parents meet their obligations automatically and reduce the number of liable parents falling into debt. Once payments are received they will be able to be immediately passed on to the receiving carer.

The system is most efficient when the liable parent is New Zealand based as it can leverage off the information received through the PAYE system and other elements of the tax system. Once a liable parent leaves New Zealand there are a number of arrangements and agreements between countries to support the collection of child support obligations.

In 2015–16, 80.2 percent of child support assessments were issued within two weeks (the target is 80 percent).

Durability and resilience

The child support regime is contained within the Child Support Act 1991. The ability the system has to respond to changes in the environment is limited by the legislative process. To date this has not proved to be an impediment as generally information technology system changes require a longer lead in that the normal bill processes allows.

Inland Revenue's transformation programme aims to provide a more responsive system that can be quickly updated which will allow Government to react faster to environmental changes.

Fairness and accountability

All the criteria and entitlement rates for child support are set out in legislation. This provides a high degree of transparency. However, one consequence of having the rules in legislation is that they do not always cater to unusual or exceptional circumstances, which can mean in rare cases the law, as written, does not achieve the desired policy outcome.

Changes proposed as part of the social policy Business Transformation project aim to introduce some flexibility by allowing the Commissioner limited discretion in how to apply the law when dealing with unusual or exceptional circumstances.

The Generic Tax Policy Process ensures that any changes to the rules are subject, where possible, to robust public consultation before the introduction of any legislative amendment.

There are also a number of different kinds of independent reviews available to parents who believe that their specific circumstances have not been taken into account. These reviews are based on Family Court processes and are contracted to independent review officers.

Following the recent reform of the child support regime, which made changes to improve the fairness of assessments by looking at the incomes of both parents, Inland Revenue has undertaken research to measure whether these reforms have changed people's perspectives of the regime. Taken as a whole there was a slight increase in customers' perceptions that the child support system is fair.

KiwiSaver

System description	<p>KiwiSaver helps individuals save for retirement. Under the scheme, savings are accumulated through a combination of employee and employer contributions, and the member tax credit (an annual contribution by the Government to eligible members, aimed at incentivising saving). Inland Revenue and the Ministry of Business, Innovation and Employment (MBIE) are jointly responsible for administering the KiwiSaver Act 2006. Inland Revenue collects contributions and transfers them to scheme providers for investment. In the 2015–16 financial year we transferred approximately \$5 billion to scheme providers. As at 30 June 2016 there were approximately 2.64 million people enrolled in KiwiSaver.</p> <p>This assessment does not account for the areas of KiwiSaver legislation MBIE is responsible for administering.</p>
Key legislation	KiwiSaver Act 2006
System agencies	Inland Revenue (Policy and Delivery) Ministry of Business, Innovation and Employment (Policy and Delivery) The Treasury (Policy) KiwiSaver scheme providers
Effectiveness	<p>KiwiSaver is an opt-out savings vehicle designed to make it easier for New Zealanders to save for their retirement. With over 2.64 million members KiwiSaver is now the primary way most New Zealanders save for their retirement.</p> <p>However, while KiwiSaver membership is high the majority of members only contribute funds at the minimum rate of 3%t. (For the 2015–16 year approximately 66 percent of employees were making contributions at a rate of 3%.) In 2015 approximately 119,200 members were on a contribution holiday. There are also concerns about members who have been on contribution holidays for over five years (meaning no contributions have been made to their KiwiSaver fund during this time), and members who do not contribute enough to receive the full member tax credit entitlement.</p> <p>Inland Revenue and MBIE are currently working on policy initiatives aiming to encourage members to increase their level of contributions, and therefore to increase the funds members will have accumulated to support themselves in retirement.</p>

Efficiency

KiwiSaver acts as a low-cost managed retirement saving vehicle. As employee contributions are made concurrent with PAYE deductions, KiwiSaver is convenient and does not have compliance costs for members. KiwiSaver is currently broadly available to New Zealand residents up to the age of 65. And as part of the policy increasing the New Zealand Superannuation age, the Government has agreed to remove the upper age limit for KiwiSaver membership.

Inland Revenue aims to be efficient in its administration of KiwiSaver. Contributions for existing members are transferred to scheme providers in under a month, and it is anticipated this time will be further decreased as part of Inland Revenue's Business Transformation programme.

Durability and resilience

KiwiSaver legislation is principally contained in the KiwiSaver Act 2006. Therefore, the initiative's ability to react to environmental and economic changes is affected by the length of the legislative amendment process. However, to date this has not generally been an issue. Any significant changes to KiwiSaver policy settings generally require system changes that have a longer lead in time than the average bill process.

KiwiSaver scheme providers offer a choice of fund types, with varying degrees of risk and return. This, along with the ability for members to go on contribution holidays, adds a degree of flexibility to the scheme and considers the current financial situation and long-term savings needs of individual members.

Fairness and accountability

The KiwiSaver regime is set out in legislation. This provides a high degree of transparency. In addition, information about KiwiSaver (including statistical analysis, which is updated monthly) is publicly available on the Inland Revenue's KiwiSaver website. Each of the nine default KiwiSaver providers also have websites where information can be publicly accessed.

Members can make complaints about Inland Revenue's administration of KiwiSaver by following Inland Revenue's complaints process, which is outlined on the Inland Revenue website. Scheme providers are subject to accountability mechanisms set out in the Financial Markets Conduct Act 2013.

Student loans

System description	<p>Student loans make tertiary study more accessible to a wide range of people so that they may gain the knowledge and skills that enhance the economic and social well-being of New Zealanders. Inland Revenue jointly administers the student loan scheme with the Ministry of Social Development (StudyLink).</p> <p>The Ministry of Education is the lead agency for student loans and is responsible for strategic policy advice, forecasting demand and costing the scheme. The Ministry of Education sets the policy parameters within the context of the New Zealand tertiary education system and the goals of the Tertiary Education Strategy.</p> <p>StudyLink assesses loan eligibility and entitlement and makes student loan payments.</p> <p>Inland Revenue maintains student loan accounts after the loan is transferred from the Ministry of Social Development. Inland Revenue collects student loan repayments and ensures repayment obligations are met by borrowers. There were 731,754 borrowers at 30 June 2016 and Inland Revenue collected \$1.2 billion in repayments in the 2015–16 financial year.</p> <p>This assessment is limited to Inland Revenue’s responsibility for administering the legislation, particularly repayments and compliance with obligations. The Ministry of Education, as the lead agency with overall responsibility for the student loan scheme, and the Ministry of Social Development have reviewed this assessment.</p>
Key legislation	Student Loan Scheme Act 2011
System agencies	Inland Revenue (Delivery) Ministry of Education (Policy) Ministry of Social Development/StudyLink (Delivery)
Effectiveness	<p>Since the student loan scheme began in 1992, students have borrowed \$23,146 million and loan repayments of \$11,480 million have been collected (\$1,208.8 million in the 2015–16 year). Nearly 450,000 borrowers have repaid their loans since the scheme began.</p> <p>Compliance with repayment obligations is high for New Zealand-based borrowers – only four percent were in default at 30 June 2016. However; 73 percent of overseas-based borrowers were in default at that time. Consequently, measures to improve compliance of overseas-based borrowers are a continuing focus.</p>
Efficiency	<p>The efficiency of the system in respect of collection of repayments from New Zealand-based borrowers arises through the low compliance costs imposed on borrowers who are wage and salary earners. Their repayments are assessed and collected by employers concurrently with PAYE.</p> <p>Opportunities to improve collections from New Zealand-based borrowers who are not wage or salary earners have been identified and are included in the discussion document <i>Making tax simpler – Better administration of social policy</i>, released in</p>

July 2017.

The efficiency of collections from overseas-based borrowers has shown significant improvement through a range of initiatives implemented progressively since 2010; the most recent being the match of student loan borrowers against the Australian Taxation Office database of taxpayers. Continued improvement is anticipated from new operational initiatives, such as a focus on establishing contact with borrowers who have left New Zealand, but are not yet treated as overseas-based borrowers, to ensure they are aware of their changed obligations and assist them to maintain repayments.

Durability and resilience

The system is subject to active oversight, through a scheme-wide approach to student loans, with lead Ministers and a virtual student loan agency.

The Minister for Tertiary Education, Skills and Employment is responsible for policy and the Minister of Revenue is responsible for the end-to-end operation of the student loan scheme, from lending to repayments.

The lead official of the cross-agency group takes an overall view of the scheme's effectiveness and is accountable to Ministers for its overall effectiveness

Joint ministers meet quarterly. The three agencies with administrative responsibilities meet fortnightly to ensure early identification of emerging trends and development of appropriate responses.

Fairness and accountability

Borrowers can access information on each of the agency websites, which contain cross-links to relevant information. In addition, Inland Revenue continuously reviews the effectiveness of its direct marketing strategies to establish and maintain contact with overseas-based borrowers.

Rights of objection, to challenge and to disputes procedures are set out in law. Details of these rights are also set out on both the Inland Revenue and StudyLink websites.

Inland Revenue's drive to improve the compliance of overseas-based borrowers will help to address a perceived lack of fairness when borrowers leave New Zealand for an extended period and choose not to continue loan repayments.

Paid parental leave

System description	<p>Paid parental leave replaces a proportion of an employee's income from employment when they take parental leave. Paid parental leave payments are subject to PAYE deductions for income tax, student loan repayments and child support. Inland Revenue makes payments for the Ministry of Business, Innovation and Employment. In the 2015–16 financial year, we made \$217 million in payments to 26,300 parents.</p> <p>The assessment below is limited to Inland Revenue's agency role of responsibility for processing applications and making payments. The Ministry of Business, Innovation and Employment were given an opportunity to contribute.</p>
Key legislation	Parental Leave and Employment Protection Act 1987
System agencies	Inland Revenue (Delivery) Ministry of Business, Innovation and Employment (Policy)
Effectiveness	<p>There were 2,222 new applications for paid parental leave (PPL) in May 2017 and 2,897 applications processed in the same period.</p> <p>A high number of complaints (54) in the 2016 calendar year (and first five months of 2017) reflected a deficiency in the law which has been corrected with effect from 1 June 2017.</p> <p>Statistics for May 2017 indicate awareness of the availability of PPL across all ethnicities and industry types.</p> <p>In that month the majority of applicants had weekly income between \$770–\$960.</p>
Efficiency	<p>In 2015–16, 97.8 percent of PPL payments were issued to customers on the first regular pay day following the agreed date of entitlement (target was 97 percent).</p> <p>The payments are made through a payroll-type system, which makes it possible to make child support, student loan and KiwiSaver deductions at the customer's request.</p> <p>Inland Revenue's processes for handling annual adjustments to rates are set to be highly responsive. For instance it was possible to fully implement the new rates effective from 1 July 2017 after being notified of the rates on only 31 May 2017.</p>
Durability and resilience	Paid parental leave is included in the Ministry of Business, Innovation and Employment's employment relations and standards regulatory system.
Fairness and accountability	The primary source of information about eligibility for PPL is the MBIE website. However, the Inland Revenue website also contains basic information about eligibility, when and how to apply.

Information sharing

System description	<p>The sharing of information between Inland Revenue and other agencies improves the effectiveness and efficiency of government. There are tensions between tax secrecy and cross-government information sharing. This tension has resulted in the Tax Administration Act having a number of legislated exceptions to tax secrecy to enable either the sharing of information from Inland Revenue to other agencies, or both the receiving of information from and sharing of information to other agencies to ensure the efficient and effective administration of the tax system.</p> <p>Inland Revenue’s tax secrecy rule is set out in section 81 of the Tax Administration Act 1994 and requires all Inland Revenue officers to “maintain, and assist in maintaining, the secrecy of all matters relating to” the Inland Revenue Acts.</p> <p>The confidentiality of tax information is important for three reasons:</p> <ul style="list-style-type: none">• to balance Inland Revenue’s wide information-gathering powers;• to promote voluntary compliance, whereby taxpayers are comfortable providing information to Inland Revenue if they know the information will not be disclosed further; and• to maintain the integrity of the tax system, as tax secrecy is a critical component of the integrity of the tax system.
Key legislation	<p>Tax Administration Act 1994 Sections 81 to 89 and 143C, 143D and 143E</p>
System agencies	<p>Multiple agencies – see diagram 3.</p> <p>Recently Inland Revenue has also begun sharing information with:</p> <ul style="list-style-type: none">• credit reporting agencies – sharing significant debt information on non-compliant taxpayers with Centrix Group Ltd, Dun & Bradstreet, and Equifax; and• the Companies Office – sharing information on taxpayers who commit serious offences under the Companies Act 1993.
Effectiveness	<p>The effective administration of the New Zealand tax system relies on taxpayers’ voluntary compliance. Critical to this compliance is taxpayers having trust in Inland Revenue that their information will not be disclosed inappropriately. However, to operate the tax system efficiently, or increasingly, for purposes relating to wider government, Inland Revenue sometimes needs to disclose information to taxpayers and third parties when it is reasonable to do so. An appropriate balance is needed in situations when these principles are inconsistent, and Inland Revenue strives to achieve that balance working in consultation with the affected parties and in collaboration with the agencies involved.</p>
Efficiency	<p>While the general rule regarding taxpayer information is one of secrecy, there are a number of targeted exceptions to this rule. In relation to these targeted exceptions, Inland Revenue currently has information-sharing agreements with several agencies.</p> <p>These agreements are authorised either via specific exceptions contained in section 81(4) of the TAA, information matching</p>

provisions (sections 82–85 of the TAA and Schedule 3 of the Privacy Act) or broader information sharing provisions (section 81BA of the TAA or the new AISA regime).

The information sharing agreements aim at improving the efficiency and effectiveness of government by working with other agencies and private providers, as well as providing better services and outcomes to customers. The agreements are developed considering the risks and putting in place the appropriate safeguards to minimise unintended consequences, such as breaches of secrecy and privacy.

Durability and resilience

The tax secrecy rules in New Zealand tax legislation are long-standing. Similar rules about the confidentiality of taxpayer information are common across tax agencies internationally.

Inland Revenue already shares a significant amount of information with other agencies. However, the rules are constantly being looked at – seeking to be modernised and clarified to better provide for confidentiality and sharing in a customer centric and intelligence-led environment, and balance the trade-offs inherent in decisions about whether to share.

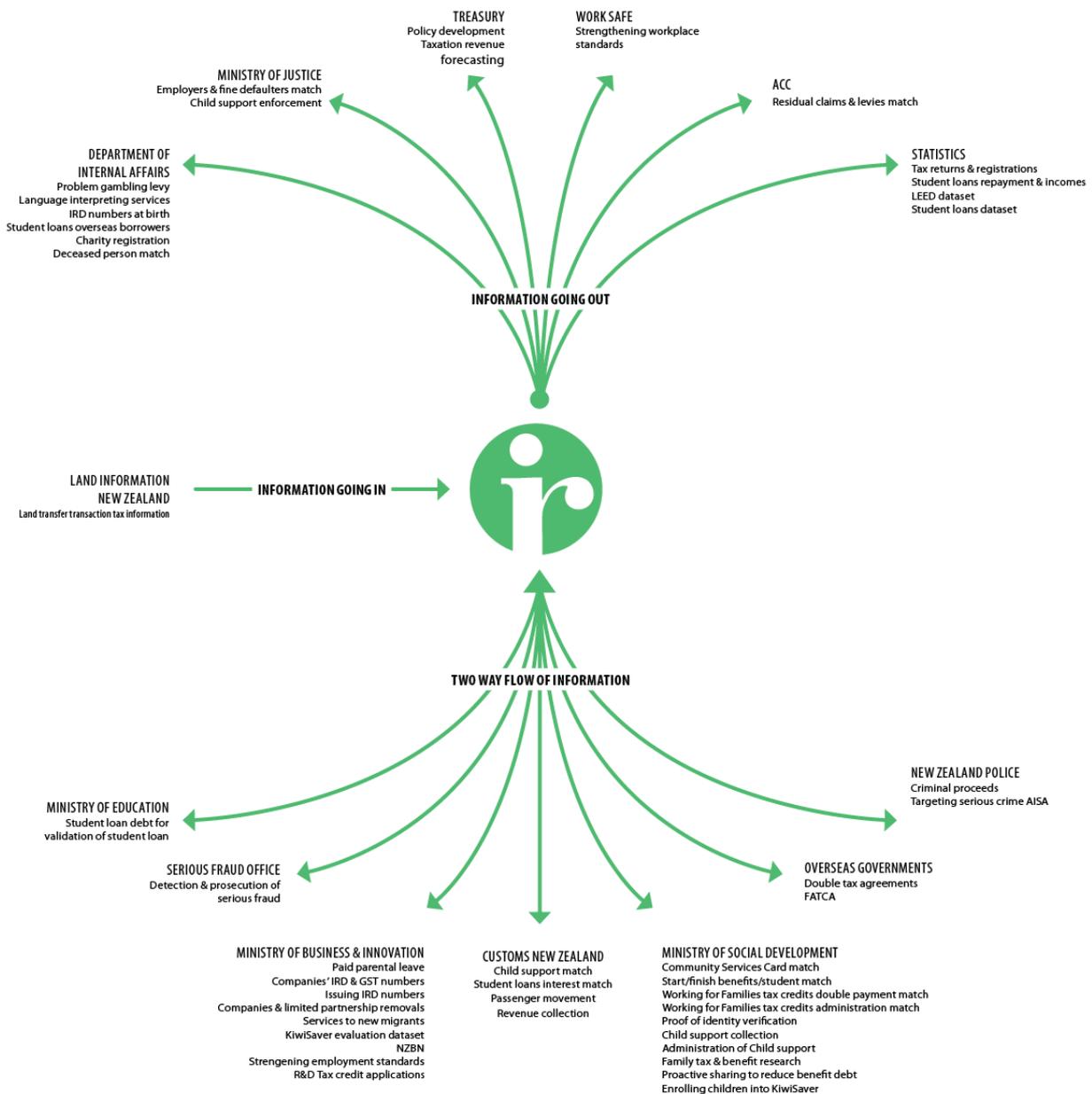
Fairness and accountability

Information is critical to Inland Revenue’s ability to perform its functions. Much of that information is provided by taxpayers. This may be information about themselves (such as in an individual or business income tax return) or about other taxpayers they deal with (such as in an employer monthly schedule). Inland Revenue can enforce the provision of information that is not received through regular channels and has significant powers to do so, but the use of these powers is the exception rather than the rule.

For taxpayers to be comfortable providing their information, they need to feel the information requested is reasonable and is treated appropriately by Inland Revenue. Currently, surety is given by what is often referred to as the tax secrecy rule – which essentially requires that information provided to Inland Revenue is for tax purposes and will only be used for such purposes.

Inland Revenue is working on refinements to the tax administration act in which the roles of the Commissioner, taxpayers and tax agents are articulated, as well as the rules around information collection and tax secrecy which underpin the interactions between these parties.

Diagram 3: Inland Revenue information sharing



Note: This diagram is simplified to reflect the main information flows between agencies and Inland Revenue. There are some instances, for example charities registration by Department of Internal Affairs, where information flows to Inland Revenue as well.

5. The Generic Tax Policy Process and the tax policy work programme

The laws for imposing and administering tax in New Zealand are contained in a number of Acts of Parliament. In broad terms the laws that impose taxes are contained in the Income Tax Act 2007 and the Goods and Services Tax Act 1985. The Tax Administration Act 1994 contains the rules for how obligations are to be satisfied. Changes to the regimes delivered by Inland Revenue therefore need to be initiated in legislation. The tax policy work programme is Inland Revenue's plan for developing, managing and delivering legislative change. Tax policy work programmes cover three years.

The Generic Tax Policy Process (GTPP)

The Generic Tax Policy Process (GTPP) has operated since 1994 to ensure better, more effective tax policy development through early consideration of key policy elements and trade-offs of proposals, such as their revenue impact, compliance and administrative costs, and economic and social objectives. Another feature of the process is that it builds external consultation and feedback into the policy development process, providing opportunities for public comment at several stages.

Consultation throughout the policy process contributes to greater transparency of policy-making, allowing the Government to set out the policy objectives of proposals and the trade-offs it has made in developing them. The process therefore helps the public to understand the rationale behind Government policy proposals. It also helps to ensure that when Ministers are making policy decisions, they are fully informed of different views and can judge them on their merits. This improves the quality of tax policy.

The consultative process sometimes cannot be used for changes that require immediate action to protect the revenue base. It would not be possible to move quickly and, at the same time, to engage in wide consultation on changes to close a recently identified loophole, for example to block a scheme that is losing the country hundreds of millions of dollars in revenue.

The GTPP is widely accepted as the way to make tax policy, and tax professionals and professional associations expect it to be used. It leads to cooperation, assistance and frank dialogue.

New Zealand's private sector is particularly well informed on tax policy issues. In large part this is a legacy of the open and constructive policy debates that started 30 years ago and were consolidated into the GTPP 20 years ago. In recent years there has also been growing engagement with the academic community on tax reform. This is helping us embark on an open process of engaging with the wider community on the opportunities that are opened up as part of Inland Revenue's Business Transformation programme.

How the tax policy work programme is developed

Developing a new tax policy work programme

The tax policy work programme follows the development of the Government's revenue strategy and economic strategy. Developing the work programme involves identifying and scoping broad policy proposals and prioritising and sequencing the development of initiatives. Stakeholders are invited to suggest how the work programme may be developed. We also look at budgeted resource requirements, the time needed to develop, legislate for and implement initiatives, and the methods of consultation and communication to be employed throughout the process.

This culminates in a joint report by Inland Revenue and the Treasury to the Minister of Finance and the Minister of Revenue, proposing a tax policy work programme. Once approved, the work programme becomes a detailed tax policy agreement between the Government and the two departments.

The work programme is generally made public, attracting strong interest from the tax and business communities, to whom it provides greater certainty and an understanding of the Government's direction in tax policy.

As time passes, and the work programme is updated and new policy initiatives are added to it, there is a risk that there will be more items on the programme than can be reasonably progressed. It is therefore important that when items are added to the work programme, existing priorities are reviewed to ensure that the Government's expectations across the work programme are met.

A new tax policy work programme will be developed for the three years following the 2017 general election.

Prioritising items on the tax policy work programme

The items on the work programme are prioritised using the following criteria:

- efficiency (to what extent will the policy help the tax system to minimise impediments to economic efficiency and growth);
- equity and fairness (the degree to which the proposal will support the Government's goals for vertical and horizontal equity);
- compliance costs for the taxpayer or customer are minimised;
- administration and system costs are minimised; and
- integrity and coherence of the tax system is maintained and enhanced.

Prioritisation is undertaken by Inland Revenue tax policy specialists and is endorsed by the Project Prioritisation and Allocation Committee, which includes Treasury officials.

The structure of the tax policy work programme

The tax policy work programme consists of:

- sub-programmes, which identify the key broad areas of focus;
- projects, within those sub-programmes, which focus on specific issues and changes;
- remedials – smaller changes, which while important for accuracy and clarity, typically do not change the policy intent; for example, correcting an earlier drafting error;
- watching briefs, which are the developing issues being monitored or researched, and for which there is not yet a clear or overwhelming need to make changes;
- regulatory updates – Inland Revenue maintains a regulations register, which identifies the routine updates and reviews that are undertaken to maintain the currency of the tax and social policies it administers, such as a routine rate adjustment; and
- research – this includes staying up to date with economic literature and developments overseas.

The sub-programmes of the tax policy work programme reflect the strategic context of Inland Revenue as well as the challenges facing Inland Revenue's regulatory management. These are:

- policies to support Inland Revenue's Business Transformation;
- policies to address international taxation concerns and implement necessary measures to address base erosion and profit shifting;
- policies to enhance and maintain the broad-based, low-rate tax system; and
- social policies.

Business Transformation and Better Public Services

Business Transformation

A significant part of the tax policy work programme is to support the design and implementation of Inland Revenue's Business Transformation programme. Overall this should reduce compliance costs for taxpayers, reduce administration costs for Government and improve the overall efficiency of tax administration, including increased voluntary compliance. It will also create opportunities to improve Inland Revenue's contribution to cross-agency initiatives for the delivery of better public services.

The areas we are focusing on include:

- progression of the two phases of the business tax package;
- better administration of PAYE and GST;
- pre-population and filing obligations for individuals;

- modernising the Tax Administration Act 1994; and
- modernising and simplifying the administration of social policies.

Better Public Services

Inland Revenue is committed to working collaboratively across government to deliver outcomes for New Zealanders. We play a key role in the Better Public Services through:

- Sharing a significant amount of information with the Ministry of Social Development and the Accident Compensation Corporation with a view to improving efficiency and enabling better outcomes for customers.
- Participating in the Gang Intelligence Centre, launched in 2015.
- Working closely with the Ministry of Business, Innovation and Employment on the design and implementation of the New Zealand Business Number.
- Committing to Digital Government (previously called the ICT Partnership). This framework has been set up to support the goal of a single, coherent ICT ecosystem supporting radically transformed public services.
- Contributing to SmartStart, a project led by the Department of Internal Affairs. It is a product designed around the birth of a baby for use on digital devices. This was released in December 2016, and is the first life-event-based service created by Inland Revenue, the Ministry of Health, the Department of Internal Affairs and the Ministry of Social Development. This tool makes it much easier for new and expectant parents to get the services and support they need to set up their child for the future.

International tax and base erosion and profit shifting (BEPS)

BEPS describes techniques used by some multinational companies to avoid paying tax anywhere in the world. BEPS tax planning strategies may exploit gaps and mismatches in countries' domestic tax rules or they may take advantage of tax rules that are grounded in a "bricks and mortar" economic environment which may not address less tangible forms of commerce, such as digital services. Addressing BEPS issues requires international co-ordination. International concern around BEPS remains high and is prominent in the news media. The G20 and OECD have emphasised the need for a co-ordinated multilateral solution by developing a 15-point action plan which covers three themes:

- greater transparency and exchange of information;
- more robust domestic tax laws; and
- international agreements and cooperation.

Greater transparency and exchange of information

The work programme meets OECD timelines for the automatic exchange of information (AEOI) initiative. The recommendations made by the *Government Inquiry into Foreign Trust Disclosure Rules* are also being implemented.

More robust domestic tax laws

New Zealand's domestic cross-border tax laws need to be robust. This is to ensure that our domestic tax settings protect our tax base and do not facilitate double non-taxation, tax avoidance or evasion. New Zealand already has strong controlled foreign company rules; and does not have harmful tax practices, as confirmed by the OECD in its last review in 2012. In addition, we have introduced GST on online services consumed in New Zealand and measures to prevent the avoidance of non-resident withholding tax on interest paid to related parties.

We will:

- Continue working on a package of BEPS initiatives. This includes hybrid mismatch rules to prevent companies structuring their business entities or financing arrangements to take advantage of differences in how countries' tax these arrangements, and interest limitation rules which will prevent companies stripping excessive profits out of New Zealand using deductible interest payments.
- Ensure an appropriate definition is applied for the permanent establishment of multinational businesses.

International agreements and cooperation

The tax policy work programme reflects the need to work with the OECD and treaty partners to ensure international agreements are fit for purpose. Our work includes:

- implementing OECD's multilateral instrument (signed in June 2017), which amends our network of tax treaties to insert a new anti-treaty abuse article, a new permanent establishment definition, anti-hybrid entity rules and dispute resolution articles;
- maintaining the tax treaties we have with 40 other countries and applying these to New Zealand income; and
- applying revised OECD transfer pricing guidelines to address misallocation of profits to low tax jurisdictions.

International cooperation

New Zealand is a committed and active member of the international tax community, which is important for improving the effective functioning of the world economy. Our OECD commitments account for the majority of our resources committed to our international obligations. The OECD is a rule-making body. As an OECD member, decisions made by the OECD have a direct impact on New Zealand's international tax policy settings and this has given rise to much of the domestic and BEPS tax policy work programme.

Enhancements to tax policy within broad-base, low-rate (BBLR) tax settings

There is high public support for New Zealand's general tax structure, with its BBLR tax settings. BBLR settings involve taxing a very broad range of consumption through GST and a very broad range of business and personal income through income

tax at low or moderate tax rates. Keeping bases broad minimises distortionary costs of taxes. Moreover, this allows tax rates to be kept as low as possible which also helps minimise distortions. Our BBLR tax system also helps keep compliance costs relatively low.

It is impossible to maintain a good tax system through a set of static rules. An effective approach requires on-going modification and refinement of legislation as new situations, behaviours, related legislation and judicial rulings emerge. We will not serve the Government or our customers well if we do not put sufficient resources into the repair and maintenance of existing tax law. There is capacity reserved within the tax policy work programme to ensure there is a balance of enhancements to tax settings within the BBLR framework that will go some way to meeting stakeholders' need for clarity and certainty in the tax system, while ensuring expected Government revenue is maintained.

This includes dealing with important remedial issues as they arise, which ensures that current tax law is operating as intended. This is essential in maintaining public support for the tax system.

Social policy

About half of Inland Revenue's business is delivering social policy programmes, including the repayment of student loans, administering Working for Families tax credits, child support and KiwiSaver. Inland Revenue has an important role in providing advice on these policies. Social policies such as Working for Families involve significant government expenditure and affect large numbers of people. Our role in these social policy areas is closely linked to other portfolios, including ACC, education, health, and social development.

As part of Business Transformation, we are looking at how our social policies can best be delivered within Inland Revenue's transformed infrastructure and processes. In addition, we ensure the maintenance and enhancement of existing social policy settings.

The social policy-related work programme has been planned to ensure that we have capacity to respond to emerging issues across each social policy regime.

6. The tax policy work programme – current projects

Items marked as **New** were initiated after the tax policy work programme was last published in November 2016.

This list will be updated from time to time on Inland Revenue's tax policy website at <http://taxpolicy.ird.govt.nz/work-programme>

Enhancing tax policy within broad-base, low-rate (BBLR) tax settings

Project	Description	Regulatory system
Review of the tax framework for employee share schemes	Reforming the tax treatment of employee share schemes to ensure appropriate and balanced outcomes.	Income tax
Income protection insurance: a review	The Financial Services Council is seeking a review of the income tax treatment of income protection insurance. There is a lack of clarity about the tax treatment of this form of insurance and inconsistencies across products offering similar benefits.	Income tax
Deductibility of holding costs for revenue account property	Considering the deductibility of holding costs for property.	Income tax
Abusive tax position penalty	Examining the application of the abusive tax position penalty in cases of tax avoidance, and whether any changes are needed to the penalty.	Income tax
Demergers	Considering an exclusion from dividend taxation for corporate demergers.	Income tax
Petroleum mining decommissioning expenditure	Replacing the existing ability to spread back petroleum mining decommissioning expenditure to earlier tax years with a refundable tax credit in the current year.	Income tax
Review of bank account requirement for offshore persons' IRD numbers	The bank account requirement for an offshore person to obtain an IRD number continues to cause issues in practice. In particular, it is an obstacle in a number of cases to people being able to comply with their tax obligations.	Income tax
Trust beneficiaries as settlors	There are instances when beneficiaries of trusts who leave their beneficiary income in the current accounts with the trust become inadvertent settlors. This is not in accordance with the policy intent.	Income tax
Financial arrangement issues	There are a variety of financial arrangement taxation issues ranging from remedial to policy enhancements to ensure these rules work as intended.	Income tax

Project	Description	Regulatory system
Taxation of non-bank securitisation vehicles	Extending the current securitisation regime to beyond banks.	Income tax
Impact of case law on the “voting interest” test for corporate trustees	Considering the impact of recent case law on the application of the voting interest test in the Income Tax Act 2007 and the Goods and Services Tax Act 1985 to corporate trustees.	Income tax
Repeal adverse events income equalisation deposit regime	This regime is, in practice, little used, because the main scheme offers more flexibility. However, its existence can cause some confusion.	Income tax
Review of donee status applications	Dealing with applications by organisations for donee status under schedule 32.	Income tax
Treaty of Waitangi settlements	Tax implications of Treaty settlements are addressed as required.	Income tax
Feasibility and black hole expenditure (New)	Reviewing the rules on deductions for the costs related to undertaking feasibility studies and other possible black hole expenditures.	Income tax
GST on imported low value goods (New)	Working with the New Zealand Customs Service to support the development of a regime to collect GST on low value imported goods.	Consumption tax
Employee share schemes – deferral regime for start-up companies (New)	Design of a deferral regime, whereby start-up companies may defer the payment of tax on employee share schemes to a future point in time when the valuation and liquidity problems are not as pronounced.	Income tax

International tax and base erosion and profit shifting (BEPS)

Project	Description	Regulatory system
Hybrid instruments and entities	Consideration of foreign hybrid instruments and entities in the context of BEPS.	Income tax
Double tax agreement (DTA) work programme	New Zealand is seeking to establish new and updated double tax agreements with a number of countries, including Norway, China, Korea, Slovak Republic, Portugal and Fiji.	Income tax
Automatic exchange of information	Domestic implementation of a new global standard on the automatic exchange of financial bank account information with treaty partners.	Information sharing
Interest limitation rules	Consideration of New Zealand’s interest limitation rules in light of OECD recommendations. Part of the BEPS Action Plan.	Income tax

Project	Description	Regulatory system
Multilateral instrument	As part of the BEPS work, we have signed a multilateral instrument that simultaneously amends the double tax agreements of participating countries. The amendments to DTAs will address certain aspects of the BEPS project that have a treaty dimension, for example: treaty shopping and permanent establishment avoidance.	Income tax
Foreign trust disclosures	Policy recommendations arising from the Government Inquiry into foreign trust disclosure requirements.	Information sharing
Inbound investment framework	An officials' paper outlining New Zealand's approach to taxing foreign investment income has been prepared. It has been used as the basis for targeted consultation with private sector representatives, and has also been published on the tax policy website to facilitate a wide understanding of the trade-offs the Government faces in responding to BEPS.	Income tax

Business Transformation and Better Public Services

Business Transformation

Project	Description	Regulatory system
Better administration of GST and PAYE	Policy options to reduce compliance and administrative costs consistent with longer term business transformation thinking.	Income tax Consumption tax
Review of the Tax Administration Act	Developing a framework for tax administration with an emphasis on the key roles of the Commissioner, taxpayers and tax agents, as well as the rules around information collection and tax secrecy which underpin their interactions.	All regulatory systems
Individuals' taxation	Improving the tax system for individuals, including comprehensive pre-population of income information, collection of information, more efficient debt collection processes and the degree of interaction with the tax system.	Income tax
Business taxation	Improving the tax system for business, including the calculation of provisional tax, the collection of information and reviewing the penalties and interest rules. Includes researching additional measures that have potential to deliver further benefits to businesses, reduce compliance costs and make the tax system simpler.	Income tax

Project	Description	Regulatory system
Investment income information	Streamlining the collection of information about investment income such as interest, dividends, PIE income and Māori authority distributions.	Income tax
BT social policy	Improving the social policy system for individuals and families, including alignment of definitions, reviewing assessment periods to improve accuracy and timeliness of payments, more efficient debt collection and prevention processes, and improving outcomes for customers with special or exceptional circumstances.	All social policy regulatory systems

Better Public Services

Project	Description	Regulatory system
Information sharing agreement between Ministry of Social Development and Inland Revenue	Information sharing with Ministry of Social Development to assist in determining entitlements to benefits, social assistance and other services.	Information sharing
Information sharing between MBIE, the Companies Office and Inland Revenue (New)	Information sharing between MBIE, the Companies Office and Inland Revenue.	Information sharing

Social policy

Project	Description	Regulatory system
Financial Assistance for Live Organ Donors Bill 2015	Inland Revenue consulted by Ministry of Health on aspects that impact on Tax Acts, for example: child support, Working for Families, student loans, KiwiSaver, information sharing, and whether income replacement for donors proposed under the Bill should be treated as income for tax purposes.	All regulatory systems
Encouraging student loan repayments and addressing debt of overseas-based borrowers in the PEN group	Overseas-based student loan borrowers known as the “Penalty (PEN) Group” have overdue amounts growing faster than the rate at which borrowers in this group are becoming compliant. This is due to the compounding effect of late payment penalties (under the 1992 Act) and late payment interest. Ministers are interested in any further measures that could be developed to address the overdue debt of this group and the wider student loan borrower population.	Student loans

Project	Description	Regulatory system
Student loans – interest exemption	Budget 2016 announced the International Connections for New Zealanders package, which extends student loan interest write-offs to borrowers studying overseas who are recipients of Government-funded scholarships.	Student loans
KiwiSaver (New)	A range of reforms reflecting recently announced changes to New Zealand Superannuation and Retirement Commissioner’s recent recommendations.	KiwiSaver

Routine updates to regulations

Regulation	Description	Frequency
Taxation (Use of Money Interest Rates) Regulations 1998	Sets the rates of interest payable on underpayments and overpayments of tax.	As needed
Income Tax (Fringe Benefit Tax, Interest on Loans) Regulation 1995	Sets the prescribed interest rate that is used to determine if a fringe benefit exists in relation to an employment related loan. If the interest rate increases, the new rate applies from the commencement of the next quarter. If the interest rate decreases, the new rate applies from the commencement of the quarter in which the rate decreases.	Quarterly
Income Tax (Family Tax Credit) Regulations	Increases the amount of the family tax credit.	As needed – if the percentage movement in the CPI is 5% or more
Income Tax (Minimum Family Tax Credit) Regulations	Increases the family tax credit threshold in section ME 1(3) of the Income Tax Act 2007. The credit ensures families do not suffer a reduction of income when moving off a welfare benefit into 30 hours or more of unpaid work.	Annually
Income Tax (In-Work Tax Credit) Regulations	Increases the amount of the in-work payment amount. The amount is only increased as a result of a review of the amount by the Minister of Revenue in consultation with the Minister of Social Development. Changes are made by Order in Council if the Minister makes a policy decision to do so.	Every three years (the first review was undertaken in 2008)
Income Tax (Adverse Event Income Equalisation Scheme Rate of Interest) Regulation	Sets the interest rate that is to be paid on deposits to the adverse events income equalisation scheme.	As needed

Regulation	Description	Frequency
Income Tax (Deemed Rate of Return, 20XX–20XX Income Year) Regulations	Sets the deemed rate of return under the foreign investment fund (FIF) rules. The deemed rate of return is based on an average of the five-year government stock rates prevailing at the end of each quarter throughout the income year and adding a margin of 4%.	Annual
Income Tax (Payroll Subsidy) Regulations 2006	Provides for the amount of the subsidy and the calculation of the payroll subsidy to be paid to PAYE intermediaries.	As needed
SILNA (Conservation Payments) Regulations	Provides for payments of money made in consideration of entering into a conservation covenant over specified Maori land (SILNA land) is not gross income of the recipient.	Irregularly – as requested
Student Loan Scheme (Charitable Organisations) Regulation 2006	Allows charitable organisations to be listed for the purposes of the Student Loan Scheme Act. Under that Act, a student loan borrower who was personally absent from New Zealand because he or she was working as a volunteer or for token payment for a charitable organisation named in the regulations may be granted an exemption by the Commissioner of Inland Revenue entitling that borrower to a full interest write-off.	As needed
Student Loan Scheme (Repayment Threshold) Regulations	Sets the income threshold at which borrowers are required to commence making repayment obligations.	Annually
Student Loan Scheme (Repayment Obligations of Overseas-based Borrowers) Regulations	Sets the level of loan balance at which overseas-based borrowers must make repayments.	As needed
Student Loan Scheme (Establishment Fee) Regulations	Sets the amount of the student loan establishment fee that is charged to a borrower each time the borrower enters into a loan contract after 31 March 2012.	As needed
Student Loan Scheme (Annual Administration Fee) Regulations	Sets the amount of the annual administration fee charged if a borrower has a consolidated loan balance of \$20 or over (note: not charged if a student loan establishment fee is charged in that tax year).	As needed
Student Loan Scheme (Late Payment Interest Threshold) Regulations	Sets the threshold for when late payment interest is charged (currently \$334 and over).	As needed

Regulation	Description	Frequency
The Commissioner may charge taxpayers the service fee associated with using credit or debit cards to make payments	The service fee is currently 1.42% of the amount paid, plus GST if any. The amount of the service fee can be changed by Order in Council.	As needed
Taxation (Direct Credit Refund) Regulations	Specify a tax refund type must be made by direct credit to a bank account nominated by the taxpayer entitled to a refund.	As needed

7. Acts administered by Inland Revenue

Inland Revenue administers these Acts:

- Child Support Act 1991
- Gaming Duties Act 1971
- Goods and Services Tax Act 1985
- Income Tax Act 2007
- KiwiSaver Act 2006
- Stamp and Cheque Duties Act 1971
- Student Loan Scheme Act 2011
- Tax Administration Act 1994
- Taxation Review Authorities Act 1994